

Supplement to AAT Paper 7

Chapter 2 – Presentation of Financial Statements

(I) Amend the following paragraph numbers:

Title of the paragraph	Original paragraph number	Amended paragraph number
Statement of changes in equity	2.13	2.14
Statement of cash flows	2.14	2.15
Some final requirements for notes to the financial statements	2.15	2.16
Disclosures of the entity itself	2.16	2.17

(II) Amend paragraph 2.13 Statement of comprehensive income:

Replace “all items of income and expenses recognised” with “all non-owner changes in equity, income and expenses recognised”.

(III) Add the following ‘latest updates’ by the end of paragraph 2.12(a) ‘Information to be presented in the statement of financial position’:

Latest Updates:

Since the introduction of HKAS 27 (revised) during March 2008, the following amendments should be made in paragraph 2.12(a) of this text:

- (i) Replace ‘minority interest(s)’ with ‘non-controlling interests’ in paragraph 2.12(a)q.
- (ii) Non-controlling interests must be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.

(IV) Add the following ‘latest updates’ by the end of paragraph 2.13(a) ‘Information to be presented in the statement of comprehensive income’:

Latest Updates:

Since the introduction of HKAS 27 (revised) during March 2008, the following amendments should be made in paragraph 2.13 (a) of this text:

- (i) Replace ‘minority interest(s)’ with ‘non-controlling interests’ in the following paragraphs:
There should then be disclosure of the way this profit or loss and total comprehensive income is allocated between:

- the owners of the parent company
- the ~~minority interest~~ non-controlling interests.

An entity shall disclose the following items in the statement of comprehensive income as allocations of profit or loss for the period:

- a. profit or loss for the period attributable to:
 - i. ~~minority interest~~ non-controlling interests, and
 - ii. owners of the parent.
- b. total comprehensive income for the period attributable to:

- i. ~~minority interest~~ non-controlling interests, and
 - ii. owners of the parent.
- (ii) Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests.

(V) Replace the second paragraph of paragraph 2.14 ‘Statement of changes in equity’ with the following:

HKAS 1 requires an entity to present all owner changes in equity in a statement of changes in equity, showing:

- (a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;
- (b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with HKAS 8; and
- (c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing each changes resulting from:
 - (i) profit or loss;
 - (ii) each item of other comprehensive income; and
 - (iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

(VI) Add the following ‘latest updates’ by the end of paragraph 3 ‘Illustrative financial statements’:

Latest Updates:

Since the introduction of HKAS 27 (revised) ‘Consolidated And Separate Financial Statements’, the item of ‘minority interest(s) should be replaced by ‘non-controlling interests’ in the financial statements. **Non-controlling interest**, according to HKAS 27, refers to the equity in a subsidiary not attributable, directly or indirectly, to a parent.

Chapter 3 – Presentation of Financial Statements

(I) Item 1 of Activity 2 should be read as:

1. An entity has previously depreciated vehicles using the reducing balance method at 40% per annum. It now uses the straight-line method over a period of five years.

(II) Answer for Activity 1 should be amended as follows:

- are neutral, i.e. free from ~~bHKAS~~ bias

Chapter 4 – Events after the reporting period

(I) Amend paragraph 1.2 ‘Proposed dividends’:

The paragraph of “Under HKAS 10, dividends.....as required by HKAS 1.” should be read as:

“Under HKAS 10, dividend declared, after the end of the reporting period but before the financial statements are authorised for issue, cannot be included as liabilities at the end of the reporting period

because no obligation exists at that time. The liability arises at the declaration date so they are non-adjusting events after the reporting period and are disclosed by note as required by HKAS 1. Date of ‘dividend declared’ refers to the point of time where dividends are appropriately authorised and no longer at the discretion of the entity”

Chapter 6 – Property, plant and equipment

(I) Add the following items in the first page Chapter 6:

- Before the ‘Objectives’ paragraph, add “HKAS 36 *Impairment of Assets* (which is not part of the syllabus) is also discussed in this chapter because the concepts discussed in this standard affects all asset items including property, plant and equipment, investment properties, intangibles that are part of the syllabus of AAT paper 7.
- Add ‘discuss the impairment of assets’ to the ‘Objectives’ paragraph.

(II) Amend the following in paragraph 1.7(b) ‘The revaluation model’:

- Amend the last 2 paragraphs just before 1.7(c) as “On revaluation, the increase in carrying amount must be ~~credited directly to equity~~ recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus unless, of course, the increase reverses a previous revaluation decrease of the same asset which was recognised as an expense in the profit or loss. In that case, the increase is credited in the profit or loss.

Conversely, if the revaluation decreases the value of the asset, the decrease has to be recognised immediately as an expense in the profit or loss, unless there is a revaluation ~~reserve representing a surplus~~ on the same asset. In that case, the decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.”

- The following items of Notes in Example 5 should be amended as:

Carrying value amount at 31 December 20X8	
Carrying value amount at 1 January 20X8	1,056
Revaluation reserve surplus (1,400 – 1,056)	344

(III) Add the following item to paragraph 1.12 ‘Disclosure requirements’:

Add the following item to “The following...depreciable assets”:

- a reconciliation of the carrying amount at the beginning and end of the period showing:
 - additions (including acquisitions through business combinations);
 - assets classified as held for sale or included in a disposal group classified as held for sale in accordance with HKFRS 5 and other disposals;
 - increases or decreases resulting from revaluations and from impairment losses recognized or reversed in other comprehensive income;
 - impairment losses recognised or reversed in profit or loss;
 - depreciation; and
 - exchange differences arising on the translation of the financial statements.

(IV) Amend paragraph 2.2 ‘Identifying an asset that may be impaired’:

Delete the following item under the heading of ‘internal sources of information’:

- “Changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in which an asset is used, or is expected to be used. (example may be to dispose the operations where asset is being used or to make the asset idle).”

(V) Amend part (c) of the answer to Exam-Type Question 1:

Revaluation reserve surplus

	\$000
Hotel A ((800 – 180) – 1,300)	680
Hotel B ((700 – 120) – 850)	270
	<hr/>
Balance on revaluation reserve surplus	950

Note that the deficit on Hotel C is recognised as an expense in the statement of comprehensive income, calculated as $(1,000 - 140) - 650 = (\$1,000,000 - \$140,000) - \$650,000 = \$210,000$

Chapter 7 – Investment property

(I) Amend paragraph 1.8 ‘Tranfers’:

The paragraphs of “Transfer from **owner-occupied property** to.....recognised in the statement of comprehensive income” should be changed to:

- Transfer from **owner-occupied property** to **investment property** to be carried at fair value – HKAS 16 (cost less depreciation) will have been applied up to the date of the change. On adopting fair value, the treatment of the changes in carrying amount of the property will be to recognize:
 - a decrease in the carrying amount of the property in profit or loss. However, to the extent that an amount is included in revaluation surplus for that property, the decrease is charged against that recognised in other comprehensive income and reduces the revaluation surplus within equity.”
 - an increase in the carrying amount, to the extent that the increase reverses a previous impairment loss for that property, the increase is recognised in profit or loss. The remaining part of the increase is credited directly in equity in recognised in other comprehensive income and increases the revaluation surplus within equity.

(II) Add the following to the end of paragraph 1.9 ‘Disposal’:

According to the requirements of HKAS 40, at the time of subsequent disposal, the revaluation surplus of the investment property included in equity may be transferred to retained earnings and such transfer from revaluation surplus to retained earnings is not made through profit or loss.

(III) Amend part (a) of the answer to Exam-Type Question 1:

Replace the first paragraph “The open market value method.....the comprehensive income” with “HKAS 40 gives an entity the choice of adopting the fair value model or the cost model for its investment properties. The chosen policy must be applied to all the investment properties belonging to the entity. The fair value model requires the entity to revalue its investment properties each year to fair value, any gain or loss being included in the profit or loss for the period. Under this model depreciation is not charged in relation to investment properties”.

Chapter 8 - Leases

(I) Example 1 – change IAS 17 to HKAS 17.

Chapter 9 – Intangible assets

(I) Amend Paragraph 1.2 ‘Definition’:

Replace the paragraph under the heading of ‘Identifiable’ by the following:

“According to HKAS 38, an asset meets the criteria of ‘identifiable’ when either of the following is met:

- (i) It is separable – this refers to an asset that is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability. However, whether the entity intends to do so is not considered in this case; or
- (ii) It arises from contractual or other legal rights – However, whether those rights are transferable or separable from the entity or from other rights and obligations is not considered.”

(II) Amend paragraph 1.5 ‘Measurement after initial recognition’:

Amend “If an intangible asset’s....to that asset” as follow:

- If an intangible asset’s carrying amount is increased as a result of a revaluation, the increase shall be ~~credited directly to~~ recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.
- If an intangible asset’s carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be ~~debited directly to equity under the heading of revaluation surplus to the extent of any credit balance~~ recognised in other comprehensive income to the extent of any credit balance in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

Chapter 13 – Government grants and borrowing costs

(I) Amend paragraph 2.6 ‘Suspension of capitalisation’ as follow:

Capitalisation of borrowing costs should be suspended during extended periods in which active development is ~~interrupted~~ of the qualifying asset is suspended.

Chapter 14 – Consolidated financial statements, investment in associates & interest in joint ventures

(I) Paragraph 1.1 ‘What is a group?’ as follow:

“~~Minority interest~~ Non-controlling interests is the equity in a subsidiary not attributable, directly or indirectly, to a parent.”

(II) Paragraph 1.2 ‘Presentation of consolidated financial statements’:

Amend the following paragraph:

“Control exists when.....there is:

- c. ~~(c)~~ power...body; or
- d. ~~(d)~~ power...body.

(III) Paragraph 1.3 ‘Consolidated procedures’:

The following sub-paragraphs are amended as:

- b. ~~minority interests~~ non-controlling interests in the profit or loss of consolidated subsidiaries for the reporting period are identified;
- c. ~~minority interests~~ non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the parent’s ownership interests in them.
- j. ~~Minority interests~~ non-controlling interests shall be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. As for the total comprehensive income, it must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(IV) Paragraph 2.3 ‘Minority interests’:

- Re-title paragraph 2.3 as ‘Non-controlling interests’.
- Amend the paragraphs as: “What happens if P owns only 80% of the ordinary shares of S? In this case there is said to be a ~~minority interest~~ non-controlling interests of 20%.....The statement of financial position format in HKAS 1 includes the ~~minority interest~~ non-controlling interests immediately below the subtotal of capital and reserves.

(V) Exam-Type Question 2:

- Amend answer in part (a) as follows:
The following sub-paragraphs are amended as:
 - (iii) ~~minority interests~~ non-controlling interests in the profit or loss of consolidated subsidiaries for the reporting period are identified;
 - (iv) ~~minority interests~~ non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the ~~parent shareholders’ equity~~ parent’s ownership interests in them.
- Delete both question and answer for part (b).

Chapter 15 – Statement of cash flows



EXAM - TYPE QUESTION 2

The draft statements of financial position as at 31 March 20X7 and 20X6 of Jack plc are shown below:

	20X7		20X6	
	\$m	\$m	\$m	\$m
Non-current assets:				
Intangible assets – goodwill		450		410
Tangible assets		2,480		1,830
		<u>2,930</u>		<u>2,240</u>
Current assets:				
Inventory	920		763	
Receivables	642		472	
Cash	–		34	
		<u>1,562</u>	<u>1,269</u>	
		<u>4,492</u>	<u>3,509</u>	
Share capital and reserves:				
Ordinary shares of \$1 each		500		400
Retained earnings		1,871		1,732
Other components of equity:				
Share premium account	90		70	
Revaluation reserve	170		–	
		<u>260</u>	<u>70</u>	
Non-current liabilities:				
8% debenture 20Y2		200		–
10% redeemable preference shares		350		350
Provisions for liabilities and charges:				
Government grants	210		160	
Environment provision	76		24	
		<u>338</u>	<u>214</u>	
Current liabilities:				
Trade payables	680		518	
Accrued interest	4		–	
Bank overdraft	63		–	
Taxation	228		215	
Deferred credit – government grants	50		40	
		<u>973</u>	<u>743</u>	
		<u>4,492</u>	<u>3,509</u>	

The draft income statement for Jack plc for the year to 31 March 20X7 is as follows:

	\$m	\$m
Turnover		3,655
Cost of sales:		
Depreciation	366	
Impairment of goodwill	36	
Other costs	2,522	
		<u>(2,924)</u>
Gross profit for period		731
Other operating income – government grant		50
		<u>781</u>
Distribution costs	75	

Administration	56	
Environmental provision	67	
		(198)
		583
Finance cost – debenture interest	(12)	
Preference dividend	(35)	
		(47)
Profit before tax		536
Taxation		(177)
Profit for the period after tax		359
Jack plc – Other comprehensive income for the year ended 31 March 20X7		
		\$m
Profit for the year		359
Other comprehensive income		
Gain on property revaluation		170
Total comprehensive income for the year		529

The following information is relevant.

Tangible non-current assets

These include land which was revalued giving a surplus of \$170 million during the period.

The company's motor vehicle haulage fleet was replaced during the year.

The fleet originally cost \$42 million and had been written down to \$11 million at the time of its replacement. The gross cost of the fleet replacement was \$180 million and a trade-in allowance of \$14 million was given for the old vehicles. The company acquired some new plant on 1 July 20X6 at a cost of \$120 million from Bromway. An arrangement was made on the same day for the liability for the plant to be settled by Jack plc issuing at par an 8% debenture dated 20Y2 to Bromway. The value by which the debenture exceeded the liability for the plant was received from Bromway in cash.

Environmental provision

The provision represents an estimate of the cost of environmental improvements relating to the company's mining activities.

Ordinary share issue

During the year Jack plc made a bonus issue from the share premium account of one for every ten shares held. Later Jack plc made a further share issue for cash. A dividend of \$220,000 was paid during the year.

Preference dividend

A full preference dividend was paid during the year.

REQUIRED

- (a) Prepare a statement of cash flows for Jack for the year to 31 March 20X7 in accordance with HKAS 7 Statements of cash flows.
- (b) Using your answer in (a), comment on the financial position of Jack plc as portrayed by the information in your statement of cash flows.

AAT Paper 7 Bibliography

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Remark: This AAT Paper 7 has been updated on HKFRS and HKAS as of 30 November 2008.